

CITY OF SPEARFISH
SPEARFISH, SOUTH DAKOTA

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

RECEIVED

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LEGISLATIVE AUDIT

CITY OF SPEARFISH

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CITY OF SPEARFISH

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Ketel Thorstenson, LLP

Certified Public Accountants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT

City Council
City of Spearfish
Spearfish, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF SPEARFISH** (the City), Lawrence County, South Dakota, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 4, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12, and the required supplementary budgetary information on pages 44 through 47, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and the Budgetary Comparison Schedule – TID#2 Industrial Park Capital Project Fund listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and budgetary comparison schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

April 4, 2011

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009

This section of the City of Spearfish (the City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended December 31, 2009. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's net assets from governmental and business-type activities increased by \$3,783,643 primarily due to the acquisition of capital assets.
- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$1,428,678 more than the \$10,480,940 governmental expenditures, before transfers.
- In the City's business-type activities, revenue increased by 8.3% to \$5,960,799 while expenses increased by 0.71%.
- The total cost of the City's programs increase by \$2,002,026, approximately 16.6%, due to the Spearfish Recreation and Aquatic Center opening in October 2008.
- The general fund reported a \$833,241 current year decrease primarily due to increased costs for City Administration (a City Administrator position was added in October 2008), increased costs for the newly opened Spearfish Recreation and Aquatic Center and a decrease in the gaming tax revenue.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has six proprietary funds – the Water Fund, the Electric Production Fund, the Sewer Fund, the Parking Fund, the Solid Waste Fund, and the Campground Fund. In addition, the City has an Internal Service Fund for health insurance.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in a single column in the basic financial statements.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of City of Spearfish's Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems
Required Financial Statements	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health or position.

- Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional non-financial factors, such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

- Governmental Activities -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- Business-type Activities -- The City charges fees to customers to cover the costs of certain services it provides. The City's water and sewer systems, as well as the solid waste program, the hydro electric plant, the City campground, and a small parking district are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

Governmental Funds – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

Proprietary Funds – Services for which the City charges customers fees to cover the cost of the service are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short and

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Fund Financial Statements (Continued)

long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased by 6.36 percent between 2008 and 2009 -- increasing by \$3,783,643 (see Table A-1).

Table A-1

Statement of Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2008	2009	2008	2009	2008	2009
Current & Other Assets	\$ 13,379,201	\$ 12,045,869	\$ 5,970,354	\$ 7,597,161	\$ 19,349,555	\$ 19,643,030
Capital Assets	41,932,626	48,019,600	15,735,388	20,430,986	57,668,014	68,450,586
Total Assets	\$ 55,311,827	\$ 60,065,469	\$ 21,705,742	\$ 28,028,147	\$ 77,017,569	\$ 88,093,616
Long-Term Debt	\$ 14,300,782	\$ 17,772,013	\$ 1,985,838	\$ 5,869,145	\$ 16,286,620	\$ 23,641,158
Other Liabilities	765,157	762,528	475,610	416,105	1,240,767	1,178,633
Total Liabilities	\$ 15,065,939	\$ 18,534,541	\$ 2,461,448	\$ 6,285,250	\$ 17,527,387	\$ 24,819,791
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ 28,016,019	\$ 31,045,819	\$ 13,864,627	\$ 14,687,402	\$ 41,880,646	\$ 45,733,221
Restricted	3,613,150	2,986,653	-	-	3,613,150	2,986,653
Unrestricted	8,616,719	7,498,456	5,379,667	7,055,495	13,996,386	14,553,951
Total Net Assets	\$ 40,245,888	\$ 41,530,928	\$ 19,244,294	\$ 21,742,897	\$ 59,490,182	\$ 63,273,825
Beginning Net Assets	\$ 35,522,018	\$ 40,245,888	\$ 17,372,534	\$ 19,244,294	\$ 52,894,552	\$ 59,490,182
Prior Period Adjustment	67,650	-	-	-	67,650	-
Increase in Net Assets	4,656,220	1,285,040	1,871,760	2,498,603	6,527,980	3,783,643
Percentage of Increase						
Net Assets	13.11%	3.19%	10.77%	12.98%	12.34%	6.36%

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components -- the amount due within one year and the amount due in more than one year. The long-term liabilities of the City, consisting of compensated absences payable, sales tax revenue bonds payable and water revenue bonds payable, have been reported in this manner on the Statement of Net Assets. The difference between the City's assets and liabilities is its net assets.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The City's total revenues (excluding transfers and gain (loss) on capital assets) totaled \$17,870,417 (see Table A-2). Well over half of the City's revenue comes from charges for services and tax, with 39 cents of every dollar raised coming from charges for services (primarily water, sewer and solid waste operation) and 44 cents of every dollar raised comes from some type of tax. (See Figure A-2). Another 10.63 cents of every dollar raised comes from state and federal grants for capital purposes and most of the rest comes from state-shared revenues and interest earnings.

The total cost of all programs and services increased by 16.6 percent from 2008 to 2009. The City's expenses cover a range of services, with nearly 40 percent related to public works administration, public safety, and general government. (See Figure A-3)

Figure A-2: Revenue Sources for 2009

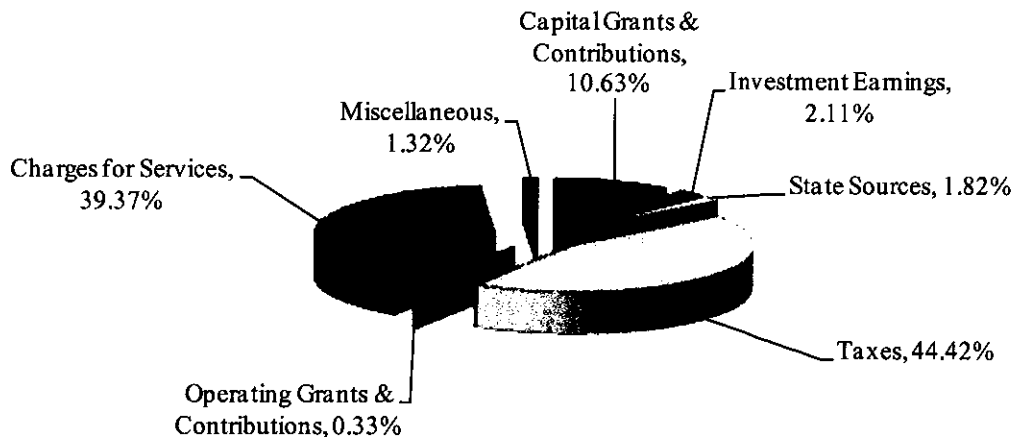
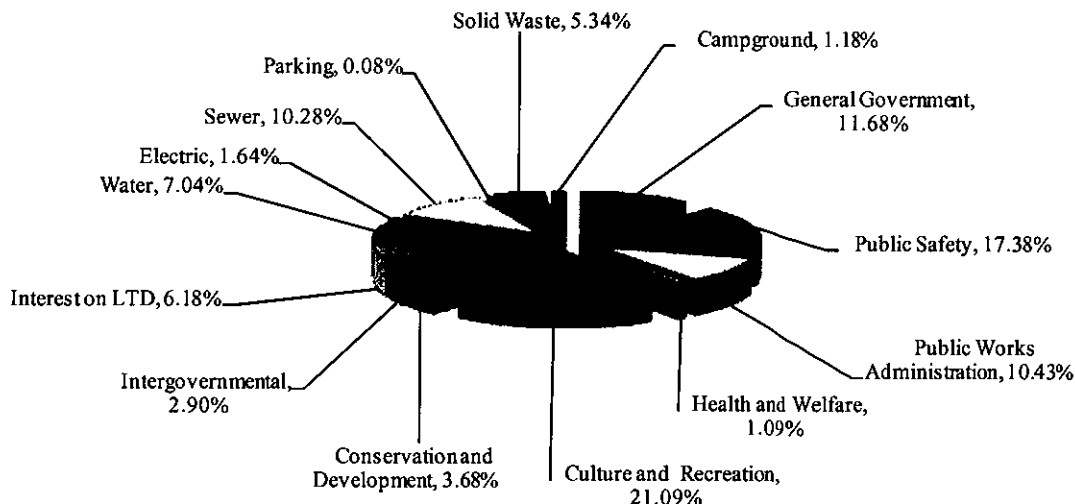


Figure A-3: Expenditures for 2009



CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-2

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2008	2009	2008	2009	2008	2009
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 1,413,966	\$ 1,832,060	\$ 4,515,321	\$ 5,203,515	\$ 5,929,287	\$ 7,035,575
Operating Grants and Contributions	38,595	1,438	34,804	57,433	73,399	58,871
Capital Grants and Contributions	1,865,021	1,360,420	681,400	539,000	2,546,421	1,899,420
<i>General Revenues</i>						
Taxes	8,421,168	7,937,790	-	-	8,421,168	7,937,790
Revenue State Sources	326,992	325,271	-	-	326,992	325,271
Unrestricted Investment Earnings	586,185	267,978	199,939	108,840	786,124	376,818
Other	458,687	184,661	70,650	52,011	529,337	236,672
Total Revenues	\$ 13,110,614	\$ 11,909,618	\$ 5,502,114	\$ 5,960,799	\$ 18,612,728	\$ 17,870,417
Expenses						
General Government	\$ 1,551,185	\$ 1,644,668	\$ -	\$ -	\$ 1,551,185	\$ 1,644,668
Public Safety	2,352,292	2,448,028	-	-	2,352,292	2,448,028
Public Works	1,316,246	1,469,417	-	-	1,316,246	1,469,417
Health and Welfare	116,069	149,053	-	-	116,069	149,053
Culture and Recreation	1,776,116	2,971,352	-	-	1,776,116	2,971,352
Conservation and Development	342,912	518,715	-	-	342,912	518,715
Interest on Long-Term Debt	681,120	870,539	-	-	681,120	870,539
Intergovernmental	368,454	409,168	-	-	368,454	409,168
Water Services	-	-	918,624	972,016	918,624	972,016
Electric Services	-	-	326,511	230,775	326,511	230,775
Sewer Services	-	-	1,375,927	1,447,789	1,375,927	1,447,789
Parking	-	-	17,208	11,390	17,208	11,390
Solid Waste	-	-	753,650	751,755	753,650	751,755
Campground	-	-	188,434	192,109	188,434	192,109
Total Expenses	\$ 8,504,394	\$ 10,480,940	\$ 3,580,354	\$ 3,605,834	\$ 12,084,748	\$ 14,086,774
Excess Revenues						
Before Transfers	\$ 4,606,220	\$ 1,428,678	\$ 1,921,760	\$ 2,354,965	\$ 6,527,980	\$ 3,783,643
Transfers	50,000	(143,638)	(50,000)	143,638	-	-
Increase in Net Assets	\$ 4,656,220	\$ 1,285,040	\$ 1,871,760	\$ 2,498,603	\$ 6,527,980	\$ 3,783,643
Net Assets - Ending	\$ 40,245,888	\$ 41,530,928	\$ 19,244,294	\$ 21,742,897	\$ 59,490,182	\$ 63,273,825

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2009

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

Revenues of the City's governmental activities exceeded expenses by \$1,285,040. Factors contributing to these results included:

- The City had a significant increase in Charges for Services primarily due to the Spearfish Recreation and Aquatic Center which opened in October of 2008.
- The City received contributions of right-of-way for streets in two new subdivisions.

Business-Type Activities

Revenues of the City's business-type activities exceeded expenses by \$2,498,603. Factors contributing to these results included:

- The City received an increase of revenues in charges for goods and services, as rates were increased and new residential homes were served.

The governmental funds transferred \$391,822 to the business-type activities in the form of assets given to the Water and Sewer funds for expansion of the Industrial Park, funded by Tax Increment District Financing.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains several governmental funds and six business-type funds. Most of the City's governmental funds had some loss during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. These amendments fall into two categories:

- Supplemental appropriations approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriations by contingency transfer to prevent budget overruns.

A significant budgetary change occurred during the year in the Recreation function because of the operation of the Spearfish Recreation and Aquatic Center. The Center was opened in October 2008 and experienced higher than projected revenues and expenses throughout the 2009 year. Another significant budgetary change was in the Highways and Streets function to allow for additional expenses from early 2009 heavy, wet snow storms.

A significant budget variance in the Parks function of the Second Penny Sales Tax Fund was experienced due to a contract payable with the Spearfish School District for the Meier/Della Vecchia Land purchase authorized by the Common Council.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

CAPITAL ASSET ADMINISTRATION

At the end of 2009, the City had \$68,450,586 invested in a broad range of capital assets, including land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$10,782,572.

Table A-3

Capital Assets (Net of Depreciation)				
	Governmental Activities		Business-type Activities	
	2008	2009	2008	2009
Land	\$ 7,503,026	\$ 8,815,544	\$ 483,843	\$ 555,905
Buildings	7,374,179	12,459,415	2,409,361	5,753,878
Improvements	11,312,258	20,096,969	8,679,339	12,427,989
Machinery & Equipment	1,646,926	3,516,518	957,936	1,150,635
Construction Work in Progress	14,096,237	3,131,154	3,204,909	542,579
Totals	\$ 41,932,626	\$ 48,019,600	\$ 15,735,388	\$ 20,430,986

This year's major capital asset additions included:

- The Spearfish Recreation and Aquatic Center, project began in 2007, was completed at a final cost of \$9,584,190, funded by a Sales Tax Bond Issue.
- The tax increment funded Elkhorn Ridge Municipal Golf Course was completed at a final cost of \$3,310,046.
- A new fire truck was purchased in 2009 at a cost of \$426,841, funded from Second Penny Sales Tax.
- A new 911 phone system was purchased in 2009 at a cost of \$246,864, funded from E911 Fund.
- The City received newly constructed streets, storm sewers, curb and gutters, and street lights, value of \$1,092,882, being dedicated by the developer.

Business-type major additions include the completion of an upgrade and expansion to the Waste Water Treatment Facility at a total cost of \$6,405,407, purchase of a new garbage truck at a cost of \$217,323, and replacement of water and sewer lines at Main Street and Jackson Blvd were completed at a cost of \$298,347. The Business-type functions also received newly constructed water and sewer lines for two new streets, value of \$539,000, being dedicated by the developer.

Governmental Activities Construction in Progress includes:

- Tax increment funded street and storm water improvements to the Spearfish Business Park, with \$695,442 spent in 2009, and an estimated \$580,000 projected to complete the project in 2010.
- Main Street Improvement Project, Phase 4, with \$170,697 spent in 2009, and an estimated \$1,700,000 projected to complete the project in 2011. Project to be funded with Highway and Bridge and Second Penny Sales Tax.
- Tax increment funded Elkhorn Ridge North Service and South Service Roads, with \$2,272,374 spent in 2009, and an estimated \$1,425,528 projected to complete the project in 2010.

Business-type Construction in Progress includes construction of a new water well and well house with \$350,941 spent in 2009 and an estimated \$742,100 projected to complete the project in 2010.

In addition to the above, the City anticipates construction in 2010 of \$697,000 in street improvements, a \$680,000 new administrative building on Canyon Street, a \$112,000 restroom/storage facility at State and Grant Street Park, a \$53,000 salt shed and planters and sidewalks at the Rose Garden for \$28,850. We will use resources on hand to accomplish these goals.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

LONG-TERM DEBT

At year-end, the City had \$23,641,158 in Sales Tax Revenue Bonds, Tax Increment Debt, State Revolving Fund debt, and other long-term obligations. This is an increase from 2008 as shown on Table A-4 below.

Table A-4

Outstanding Debt and Obligations				
	Governmental Activities		Business-type Activities	
	2008	2009	2008	2009
Compensated Absences	\$ 384,175	\$ 435,847	\$ 115,077	\$ 125,561
OPEB	-	362,385	-	-
Sales Tax Revenue Bonds	8,515,743	8,184,455	-	-
TID #1	5,400,864	6,618,849	-	-
TID #2 Industrial Park Bond	-	1,770,477	-	-
SRF Loan - Sewer	-	-	57,395	5,658,584
Clean Water Revenue Bonds	-	-	1,813,366	-
Contracts Payable	-	400,000	-	-
Lease Payable	-	-	-	85,000
Total	\$ 14,300,782	\$ 17,772,013	\$ 1,985,838	\$ 5,869,145

The City is liable for the accrued vacation and sick leave payable (compensated absences) to all full-time employees who have been employed for more than one year. The increase is due to an increase in the amount of leave accumulated and outstanding at the end of the year.

The City is potentially liable for Other Post Employment Benefits (OPEB) for the Retiree Benefit Plan. This Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses as permitted (Note 12).

The City has outstanding \$1,770,477 in TID#2 Industrial Park Bonds used to finance street and storm water improvements to the Spearfish Business Park. These bonds mature in 2021, but are expected to be paid off early.

The City has outstanding \$400,000 payable to the Spearfish School District for the purchase of the Meier-Della Vecchia land. This contract will be paid in two installments and will expire in 2011.

The City has a lease/purchase of a portable stage for \$85,000, funded from the downtown parking district. The Lease will expire in 2019.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has shown continued improvement. The City experienced an increase in total property valuation to a total of \$614,751,118, up 2 percent from the prior year. The increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$30,529. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City experienced a decrease in taxable sales of 10 percent over the prior year. The City has budgeted for a small increase in sales tax revenue for 2010 compared to the budgeted 2009 amount, due to conservative budgeting and anticipation of an economic slowdown.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

The City's adopted General Fund budget for the 2010 calendar year will increase to \$7,591,618, an increase of \$874,465. The largest portions of this increase are due to the continued operations of the Recreation and Aquatics Center, which was opened in October 2008, and also due to increases in wages and cost-of-living adjustments.

The City's business-type activities (water and sewer operations) expect that the results for 2010 will improve based on an annual rate increase implemented to cover the increasing cost of wages, benefits and cost of operations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Anyone with questions about this report or in need of additional information should contact the City of Spearfish Finance Office, 625 Fifth Street, Spearfish, SD 57783.

CITY OF SPEARFISH

**STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash	\$ 4,101,478	\$ 2,787,637	\$ 6,889,115
Investments (Note 2)	6,087,511	4,064,850	10,152,361
Accounts and Notes Receivable, Net (Note 4)	1,356,981	424,452	1,781,433
Internal Balances	(320,222)	320,222	-
Restricted Assets:			
Restricted Investments	721,333	-	721,333
Other Assets	98,788	-	98,788
Capital Assets (Note 6):			
Land, Improvements and Construction in Progress	11,946,698	1,098,484	13,045,182
Other Capital Assets, Net of Depreciation	36,072,902	19,332,502	55,405,404
TOTAL ASSETS	\$ 60,065,469	\$ 28,028,147	\$ 88,093,616
Liabilities:			
Accounts Payable	\$ 147,768	\$ 94,839	\$ 242,607
Deferred Revenue (Note 15)	60,000	-	60,000
Other Current Liabilities	554,760	321,266	876,026
Long-Term Liabilities (Note 7):			
Due Within One Year	1,274,441	233,621	1,508,062
Due in More Than One Year	16,497,572	5,635,524	22,133,096
TOTAL LIABILITIES	18,534,541	6,285,250	24,819,791
Net Assets:			
Invested in Capital Assets, Net of Related Debt	31,045,819	14,687,402	45,733,221
Restricted for:			
Special Assessment Projects	607,173	-	607,173
Debt Service	764,159	-	764,159
City Promotion	536,937	-	536,937
Street Maintenance	64,341	-	64,341
Parks	292,740	-	292,740
911 Services	99,208	-	99,208
Business Improvement District Projects	36,005	-	36,005
Recreation Paths	23,516	-	23,516
Library	69,532	-	69,532
SDPAA	98,788	-	98,788
Permanently Restricted Purposes			
Expendable	344,254	-	344,254
Nonexpendable	50,000	-	50,000
Unrestricted	7,498,456	7,055,495	14,553,951
TOTAL NET ASSETS	41,530,928	21,742,897	63,273,825
TOTAL LIABILITIES AND NET ASSETS	\$ 60,065,469	\$ 28,028,147	\$ 88,093,616

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

Functions/Programs	----- Program Revenues -----				----- Net (Expense) Revenue and Changes in Net Assets -----		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Grants and Contributions			
Primary Government							
Governmental Activities:							
General Government	\$ 1,644,668	\$ 418,526	\$ -	\$ -	\$ (1,226,142)	\$ -	\$ (1,226,142)
Public Safety	2,448,028	149,628	-	14,732	(2,283,668)	-	(2,283,668)
Public Works	1,469,417	661,021	-	1,020,800	212,404	-	212,404
Health and Welfare	149,053	-	-	-	(149,053)	-	(149,053)
Culture and Recreation	2,971,352	602,885	1,438	324,888	(2,042,141)	-	(2,042,141)
Conservation and Development	518,715	-	-	-	(518,715)	-	(518,715)
Intergovernmental	409,168	-	-	-	(409,168)	-	(409,168)
Interest on Long-Term Debt	870,539	-	-	-	(870,539)	-	(870,539)
Total Governmental Activities	10,480,940	1,832,060	1,438	1,360,420	(7,287,022)	-	(7,287,022)
Business-Type Activities:							
Water	972,016	1,774,671	-	344,000	-	1,146,655	1,146,655
Electric	230,775	415,843	-	-	-	185,068	185,068
Sewer	1,447,789	1,753,167	57,433	195,000	-	557,811	557,811
Parking	11,390	13,307	-	-	-	1,917	1,917
Solid Waste	751,755	949,889	-	-	-	198,134	198,134
Campground	192,109	296,638	-	-	-	104,529	104,529
Total Business-Type Activities	3,605,834	5,203,515	57,433	539,000	-	2,194,114	2,194,114
Total Primary Government	\$ 14,086,774	\$ 7,035,575	\$ 58,871	\$ 1,899,420	(7,287,022)	2,194,114	(5,092,908)
General Revenues:							
Taxes:							
Property Taxes (Note 5)					1,976,393	-	1,976,393
Sales Taxes					5,804,664	-	5,804,664
Other Taxes					99,598	-	99,598
Gross Receipts Tax					57,135	-	57,135
State Shared Revenue					325,271	-	325,271
Grants and Contributions Not Restricted					83,431	-	83,431
Unrestricted Investment Earnings					267,978	108,840	376,818
Miscellaneous Revenue					101,230	52,011	153,241
Transfers					(143,638)	143,638	-
Total General Revenue and Transfers					8,572,062	304,489	8,876,551
Change in Net Assets					1,285,040	2,498,603	3,783,643
Net Assets, Beginning					40,245,888	19,244,294	59,490,182
Net Assets, Ending					\$ 41,530,928	\$ 21,742,897	\$ 63,273,825

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	TID #2				
	General	Second Penny	Industrial Park	Other	Total
	Fund	Sales Tax	Capital Project	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
Assets					
101 Cash and Cash Equivalents	\$ 878,392	\$ 807,498	\$ 1,013,550	\$ 1,324,233	\$ 4,023,673
104 Investments	3,103,223	1,101,189	9,366	1,796,260	6,010,038
107 Restricted Investments	-	721,333	-	-	721,333
108 Property Taxes Receivable	22,945	-	-	-	22,945
110 Sales Taxes Receivable	83,520	83,520	-	12,841	179,881
115 Accounts Receivable, Net	10,195	-	-	5,591	15,786
121 Special Assessments Receivable	-	-	-	109,595	109,595
128 Notes Receivable (Note 4)	-	-	-	559,230	559,230
128 Contract Receivable (Note 15)	-	60,000	-	-	60,000
132 Due from Other Governments	288,174	-	-	121,370	409,544
133 Advance to Other Funds (Note 10)	-	601,111	-	-	601,111
154 Deposits	98,788	-	-	-	98,788
Total Assets	\$ 4,485,237	\$ 3,374,651	\$ 1,022,916	\$ 3,929,120	\$ 12,811,924
Liabilities and Fund Balances					
<i>Liabilities</i>					
202 Accounts Payable	\$ 91,690	\$ -	\$ 22,358	\$ 33,720	\$ 147,768
216 Accrued Wages Payable	54,070	-	-	-	54,070
220 Customer Deposits	-	-	-	10,740	10,740
224 Deferred Revenue (Note 3)	284,581	60,000	-	199,088	543,669
236 Advance from Other Funds (Note 10)	-	-	320,222	601,111	921,333
Total Liabilities	\$ 430,341	\$ 60,000	\$ 342,580	\$ 844,659	\$ 1,677,580
<i>Fund Balances</i>					
261 <i>Reserved Fund Balances</i>					
261.04 Reserved for Debt Service	\$ -	\$ 721,333	\$ -	\$ -	\$ 721,333
261.16 Reserved for Notes Receivable	-	-	-	559,230	559,230
261.00 SDPAA Reserve	98,788	-	-	-	98,788
262 <i>Unreserved Fund Balances</i>					
262.01 Designated for Next Year's Appropriations	156,607	78,513	-	36,013	271,133
262.09 Undesignated	3,799,501	2,514,805	680,336	-	6,994,642
262.09 Undesignated, Reported in Nonmajor:					
Special Revenue Funds	-	-	-	2,499,478	2,499,478
Debt Service Funds	-	-	-	42,826	42,826
Capital Projects Funds	-	-	-	(447,340)	(447,340)
Permanent Funds	-	-	-	394,254	394,254
Total Fund Balances	\$ 4,054,896	\$ 3,314,651	\$ 680,336	\$ 3,084,461	\$ 11,134,344
Total Liabilities and Fund Balances	\$ 4,485,237	\$ 3,374,651	\$ 1,022,916	\$ 3,929,120	\$ 12,811,924

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

Total Fund Balances - Governmental Funds \$ 11,134,344

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 48,019,600

Long-term liabilities, including bonds payable are not due and
payable in the current period and therefore not reported in the
funds. (17,772,013)

Assets such as delinquent taxes receivable, grants receivable and special
assessments receivable are not available to pay for current period expenditures
and therefore are deferred in the funds. 483,669

Accrued interest expense is not due and payable in the current
period and therefore is not reported in the funds. (489,950)

Internal service funds are used by management to charge the
costs of activities, such as insurance, to individual funds.
The assets and liabilities of internal service funds are included
in the governmental activities in the Statement of Net Assets. 155,278

Total Net Assets - Governmental Funds \$ 41,530,928

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

		TID #2				Total
		General	Second Penny	Industrial Park	Other	Total
		Fund	Sales Tax	Capital Project	Governmental	Governmental
		Fund	Fund	Fund	Funds	Funds
Revenue						
<i>Taxes:</i>						
31100	General Property Taxes	\$ 1,661,114	\$ -	\$ -	\$ 329,839	\$ 1,990,953
31300	General Sales and Use Taxes	2,683,853	2,683,853	-	436,958	5,804,664
31400	Gross Receipts Tax	57,135	-	-	-	57,135
31500	Amusement Taxes	1,140	-	-	-	1,140
31600	911 Telephone Surcharge	-	-	-	99,598	99,598
31900	Penalties and Interest on Delinquent Taxes	5,574	-	-	-	5,574
32000	Licenses and Permits	371,521	-	-	-	371,521
<i>Intergovernmental Revenue:</i>						
33400	State Grants	18,175	-	-	-	18,175
<i>State Shared Revenue:</i>						
33501	Bank Franchise Tax	4,418	-	-	-	4,418
33503	Liquor Tax Reversion	51,473	-	-	-	51,473
33504	Motor Vehicle Licenses (5%)	53,956	-	-	-	53,956
33508	Local Government Highway and Bridge Fund	-	-	-	84,842	84,842
<i>County Shared Revenue:</i>						
33900	County Payments in Lieu of Taxes	230,421	-	-	-	230,421
33802	County HBR Tax	17,942	-	-	-	17,942
<i>Charges for Goods and Services:</i>						
34100	General Government	5,944	-	-	25,000	30,944
34200	Public Safety	121,777	-	-	-	121,777
34300	Highways and Streets	52	-	-	-	52
34600	Culture and Recreation	596,302	-	-	6,583	602,885
34800	Cemeteries	7,792	-	-	8,600	16,392
34900	Other	55	-	-	-	55
<i>Fines and Forfeits:</i>						
35100	Court Fines and Costs	20,991	-	-	-	20,991
35200	Animal Control Fines	4,865	-	-	-	4,865
35400	Library	-	-	-	16,061	16,061
35900	Other	1,943	-	-	-	1,943
<i>Miscellaneous Revenue:</i>						
36100	Earnings on Deposits and Investments	109,767	73,949	7,670	74,503	265,889
36200	Rentals	36,284	-	-	33,314	69,598
36300	Special Assessments	-	-	321	299,972	300,293
36700	Contributions and Donations - Private Sources	8,819	29,020	-	45,592	83,431
36900	Other	8,167	-	-	14,523	22,690
Total Revenue		6,079,480	2,786,822	7,991	1,475,385	10,349,678

CITY OF SPEARFISH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Expenditures					
<i>General Government:</i>					
411 Legislative	107,497	-	-	-	107,497
412 City Administration	155,066	-	-	-	155,066
413 Elections	4,585	-	-	-	4,585
414 Financial Administration	329,161	-	-	-	329,161
419 Other	760,520	8,812	-	7,000	776,332
<i>Public Safety:</i>					
421 Police	1,751,784	-	-	25,401	1,777,185
422 Fire	152,298	-	-	-	152,298
423 Protective Inspection	135,920	-	-	-	135,920
<i>Public Works:</i>					
431 Highways and Streets	889,093	-	-	-	889,093
437 Cemeteries	105,453	-	-	-	105,453
<i>Health and Welfare:</i>					
441.1 Regulation and Inspection	68,600	20,000	-	-	88,600
444.2 Animal Control	58,453	-	-	-	58,453
<i>Culture and Recreation:</i>					
451 Recreation	1,450,911	50,000	-	108,557	1,609,468
452 Parks	283,743	14,563	-	19,062	317,368
455 Library	289,383	-	-	17,505	306,888
456 Auditorium	-	-	-	155,500	155,500
<i>Conservation and Development:</i>					
463 Urban Redevelopment and Housing	35,000	-	-	34,000	69,000
465 Economic Development and Assistance	127,236	-	-	315,033	442,269
470 Debt Service	-	764,865	-	540,606	1,305,471
480 Intergovernmental Expenditures	347,004	-	-	-	347,004
485 Capital Outlay	112,198	1,547,778	868,394	3,562,030	6,090,400
490 Other	-	-	-	-	-
Total Expenditures	7,163,905	2,406,018	868,394	4,784,694	15,223,011
Excess (Deficiency) of Revenue Over Expenditures	(1,084,425)	380,804	(860,403)	(3,309,309)	(4,873,333)
Other Financing Sources (Uses)					
39101 Transfers In (Note 10)	248,184	-	-	1,184,658	1,432,842
39103 Sale of Municipal Property	3,000	-	-	-	3,000
39120 Sale of Bonds	-	575,000	2,000,000	1,217,985	3,792,985
51100 Transfers Out (Note 10)	-	(1,050,060)	(526,420)	-	(1,576,480)
Total Other Financing Sources (Uses)	251,184	(475,060)	1,473,580	2,402,643	3,652,347
Net Change in Fund Balances	(833,241)	(94,256)	613,177	(906,666)	(1,220,986)
Fund Balances - December 31, 2008	4,888,137	3,408,907	67,159	3,991,127	12,355,330
Fund Balances - December 31, 2009	\$ 4,054,896	\$ 3,314,651	\$ 680,336	\$ 3,084,461	\$ 11,134,344

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2009

Net Change in Fund Balances - Total Government Funds \$ (1,220,986)

Amounts reported for governmental activities in the Statement of Activities are different because:

Government funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense in the Capital Assets Account Group, which is rolled into the Statement of Activities for reporting purposes. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Asset Purchases Capitalized	6,090,400
Depreciation Expense	(1,321,596)
	4,768,804

Capital assets contributed to the City, which are included in the Statement of Activities.	1,370,350
--	-----------

The governmental funds reflect proceeds (loss) from capital asset sales, if any, while the Statement of Activities report a gain (loss) on sale or disposal of capital assets.	(52,180)
--	----------

The governmental fund financial statement property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available."	(21,274)
--	----------

Governmental funds report special assessments as revenue when available, but the Statement of Activities includes special assessments receivable as revenue upon completion of the project at the point when an enforceable legal claim arises.	(24,938)
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Governmental funds report grants receivable as revenue when available, but the Statement of Activities includes grants receivable as revenue upon completion of the project at the point when an enforceable legal claim arises.	(26,667)
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The governmental fund financial statement SD Gaming Tax Receivable differ from the government-wide statement SD Gaming Tax Receivable in that the fund financial statements require the amounts to be "available."	269,380
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	735,811
--	---------

Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term liabilities in the Statement of Net Assets.	(3,792,985)
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Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures.	(51,672)
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Governmental funds do not reflect the change in Net OPEB Obligation, but the Statement of Activities reflects the change in Net OPEB Obligation through expenditures.	(362,385)
---	-----------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (i.e., change in accrued interest expense)	(300,879)
--	-----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue (loss) of the internal service fund is reported with governmental activities.	(5,339)
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Change in Net Assets of Governmental Activities	\$ 1,285,040
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The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

**BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2009**

	Water Fund	Electric Production Fund	Sewer Fund
Assets			
Current Assets			
101 Cash and Cash Equivalents	\$ 500,176	\$ 366,014	\$ 1,371,816
104 Investments	2,429,352	62,843	772,664
115 Accounts Receivable, Net	151,901	3,300	162,913
132 Due from State Government	-	-	19,805
Total Current Assets	3,081,429	432,157	2,327,198
Noncurrent Assets			
133 Advance to Other Funds (Note 10)	320,222	-	-
Capital Assets			
160 Land	177,776	150,000	30,129
162 Buildings	1,930,198	50,000	7,437,741
163 Accumulated Depreciation - Buildings	(1,132,775)	(11,334)	(2,691,252)
164 Improvements Other Than Buildings	9,837,574	-	9,927,228
165 Accumulated Depreciation - Improvements Other Than Buildings	(4,164,469)	-	(3,224,432)
166 Machinery and Equipment	798,495	71,247	3,053,641
167 Accumulated Depreciation - Machinery and Equipment	(623,458)	(16,999)	(2,632,739)
168 Construction Work in Progress	406,981	-	135,598
Total Capital Assets, Net	7,230,322	242,914	12,035,914
Total Assets	\$ 10,631,973	\$ 675,071	\$ 14,363,112
Liabilities and Net Assets			
Current Liabilities			
202 Accounts Payable	\$ 32,494	\$ -	\$ 35,097
205 Current Portion of Long-Term Debt	-	-	101,399
215 Accrued Interest Payable	-	-	199,706
216 Accrued Wages	3,386	1,802	5,518
220 Customer Deposits	107,850	-	-
233 Accrued Leave Payable	49,203	10,607	49,340
Total Current Liabilities	192,933	12,409	391,060
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion	-	-	5,557,185
Total Liabilities	192,933	12,409	5,948,245
Net Assets			
253.1 Invested in Capital Assets, Net of Related Debt	7,230,322	242,914	6,377,330
252.0 Unrestricted Net Assets	3,208,718	419,748	2,037,537
Total Net Assets	10,439,040	662,662	8,414,867
Total Liabilities and Net Assets	\$ 10,631,973	\$ 675,071	\$ 14,363,112

The accompanying notes are an integral part of the financial statements.

Parking Fund	Solid Waste Fund	Campground Fund	Total Enterprise Funds	Internal Service Employee Health Insurance Fund
\$ 88,556	\$ 151,295	\$ 309,780	\$ 2,787,637	\$ 77,805
23,612	604,830	171,549	4,064,850	77,473
-	86,533	-	404,647	-
-	-	-	19,805	-
112,168	842,658	481,329	7,276,939	155,278

-	-	-	320,222	-
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48,000	-	150,000	555,905	-
-	-	316,874	9,734,813	-
-	-	(145,574)	(3,980,935)	-
-	11,375	95,643	19,871,820	-
-	(2,048)	(52,882)	(7,443,831)	-
87,570	1,072,832	165,424	5,249,209	-
(2,919)	(680,380)	(142,079)	(4,098,574)	-
-	-	-	542,579	-
132,651	401,779	387,406	20,430,986	-
\$ 244,819	\$ 1,244,437	\$ 868,735	\$ 28,028,147	\$ 155,278

\$ -	\$ 27,248	\$ -	\$ 94,839	\$ -
6,661	-	-	108,060	-
-	-	-	199,706	-
-	2,943	61	13,710	-
-	-	-	107,850	-
-	16,411	-	125,561	-
6,661	46,602	61	649,726	-

78,339	-	-	5,635,524	-
85,000	46,602	61	6,285,250	-

47,651	401,779	387,406	14,687,402	-
112,168	796,056	481,268	7,055,495	155,278
159,819	1,197,835	868,674	21,742,897	155,278
\$ 244,819	\$ 1,244,437	\$ 868,735	\$ 28,028,147	\$ 155,278

CITY OF SPEARFISH

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Water Fund	Electric Production Fund	Sewer Fund
Operating Revenue			
380 Charges for Goods and Services	\$ 1,774,286	\$ 415,843	\$ 1,753,167
369 Miscellaneous	385	-	-
Total Operating Revenue	1,774,671	415,843	1,753,167
Operating Expenses			
410 Personal Services	267,206	142,698	577,485
420 Other Current Expenses	414,517	79,827	510,055
457 Depreciation	290,293	8,250	359,771
Total Operating Expenses	972,016	230,775	1,447,311
Operating Income (Loss)	802,655	185,068	305,856
Non-operating Income (Expense)			
334 State Grants	-	-	57,433
361 Earnings on Deposits and Investments	55,647	2,055	29,430
369 Other	-	45,489	6,522
470 Interest Expense and Fiscal Charges	-	-	(478)
Total Non-operating Income	55,647	47,544	92,907
Income (Loss) Before Contributions and Transfers	858,302	232,612	398,763
391.07 Contributed Capital	700,022	-	230,800
391.1 Transfers In (Note 10)	-	-	-
511 Transfers Out (Note 10)	(278,134)	-	-
Total Contributions and Transfers	421,888	-	230,800
Net Income (Loss)	1,280,190	232,612	629,563
Net Assets - December 31, 2008	9,158,850	430,050	7,785,304
Net Assets - December 31, 2009	\$ 10,439,040	\$ 662,662	\$ 8,414,867

The accompanying notes are an integral part of the financial statements.

Parking Fund	Solid Waste Fund	Campground Fund	Total Enterprise Funds	Internal Service Employee Health Insurance Fund
\$ 13,297	\$ 949,889	\$ 296,638	\$ 5,203,120	\$ -
10	-	-	395	512,891
13,307	949,889	296,638	5,203,515	512,891
7,330	275,764	56,379	1,326,862	-
1,141	405,810	122,240	1,533,590	520,319
2,919	70,181	13,490	744,904	-
11,390	751,755	192,109	3,605,356	520,319
1,917	198,134	104,529	1,598,159	(7,428)
-	-	-	57,433	-
1,770	14,788	5,150	108,840	2,089
-	-	-	52,011	-
-	-	-	(478)	-
1,770	14,788	5,150	217,806	2,089
3,687	212,922	109,679	1,815,965	(5,339)
-	-	-	930,822	-
-	-	29,950	29,950	-
-	-	-	(278,134)	-
-	-	29,950	682,638	-
3,687	212,922	139,629	2,498,603	(5,339)
156,132	984,913	729,045	19,244,294	160,617
\$ 159,819	\$ 1,197,835	\$ 868,674	\$ 21,742,897	\$ 155,278

CITY OF SPEARFISH

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2009

	Water Fund	Electric Production Fund	Sewer Fund
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 1,479,084	\$ 417,023	\$ 1,750,889
Payments to Suppliers	(396,271)	(84,640)	(740,628)
Payments to Employees	(272,456)	(148,744)	(587,052)
Other Receipts (Payments)	385	-	-
Cash Receipts (Payments) for Interfund Services Provided	278,134	-	-
Net Cash Flows Provided by (Used in) Operating Activities	1,088,876	183,639	423,209
Cash Flows from Noncapital Financing Activities:			
Operating Subsidies	(278,134)	-	37,628
Internal Activity - Advances to Other Funds	(320,222)	-	-
Net Cash Flows Provided by (Used in) Noncapital Financing Activities:	(598,356)	-	37,628
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Capital Debt	-	-	3,845,219
Principal Paid on Capital Debt	-	-	(57,396)
Purchase of Capital Assets	(448,202)	-	(3,524,084)
Interest Expense	-	-	(478)
Other Receipts	-	45,489	6,522
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(448,202)	45,489	269,783
Cash Flows Provided by Investing Activities:			
Interest Earned	55,647	2,055	29,430
Increase (Decrease) in Cash and Investments	97,965	231,183	760,050
Cash and Investments - December 31, 2008	2,831,563	197,674	1,384,430
Cash and Investments - December 31, 2009	\$ 2,929,528	\$ 428,857	\$ 2,144,480
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating Income (Loss)	\$ 802,655	\$ 185,068	\$ 305,856
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	290,293	8,250	359,771
Change in Assets and Liabilities:			
Change in Accounts Receivable	(22,318)	1,180	(2,278)
Change in Accounts Payable	18,246	(4,813)	(230,573)
Change in Accrued Wages Payable	(8,202)	(4,961)	(17,706)
Change in Accrued Leave Payable	2,952	(1,085)	8,139
Change in Customer Deposits	5,250	-	-
Net Cash Flows Provided by (Used in) Operating Activities	\$ 1,088,876	\$ 183,639	\$ 423,209
Noncash Capital and Related Financing Activities			
Capital Assets Contributed	\$ 700,022	\$ -	\$ 230,800
Noncash Purchase of Equipment	-	-	185,418

The accompanying notes are an integral part of the financial statements.

Parking Fund	Solid Waste Fund	Campground Fund	Total Enterprise Funds	Internal Service Employee Health Insurance Fund
\$ 13,297	\$ 936,996	\$ 296,638	\$ 4,893,927	\$ -
(1,141)	(400,232)	(92,780)	(1,715,692)	(520,319)
(7,619)	(281,718)	(56,910)	(1,354,499)	-
10	-	-	395	-
-	-	(29,950)	248,184	512,891
4,547	255,046	116,998	2,072,315	(7,428)

-	-	29,950	(210,556)	-
-	-	-	(320,222)	-
-	-	29,950	(530,778)	-

85,000	-	-	3,930,219	-
-	-	-	(57,396)	-
(87,570)	(233,353)	(31,053)	(4,324,262)	-
-	-	-	(478)	-
-	-	-	52,011	-
(2,570)	(233,353)	(31,053)	(399,906)	-

1,770	14,788	5,150	108,840	2,089
3,747	36,481	121,045	1,250,471	(5,339)
108,421	719,644	360,284	5,602,016	160,617
\$ 112,168	\$ 756,125	\$ 481,329	\$ 6,852,487	\$ 155,278

\$ 1,917	\$ 198,134	\$ 104,529	\$ 1,598,159	\$ (7,428)
2,919	70,181	13,490	744,904	-
-	(12,893)	-	(36,309)	-
-	5,578	(490)	(212,052)	-
(289)	(6,432)	(531)	(38,121)	-
-	478	-	10,484	-
-	-	-	5,250	-
\$ 4,547	\$ 255,046	\$ 116,998	\$ 2,072,315	\$ (7,428)

\$ -	\$ -	\$ -	\$ 930,822	\$ -
-	-	-	185,418	-

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The reporting entity of the City of Spearfish (City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The City participates in a cooperative unit with Northern Hills Multi-Jurisdictional Drug Task Force. See Note 13 entitled Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund -- the General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds -- special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Second Penny Sales Tax Fund -- to account for naming rights (Note 15) and an additional one percent sales tax which may be used only for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, nonprofit hospitals with fifty or fewer licensed beds and other public health care facilities or nonprofit health care facilities with fifty or fewer licensed beds, the transfer to the special 911 fund, the purchasing of fire fighting vehicles and equipment, debt retirement, the minor or major rehabilitation or reconstruction of streets, economic development purposes, and distribution to other political subdivisions of the State of South Dakota for an authorized public purpose under 6-5-5, including the operational costs thereof or for capital expenditures (City Ordinance No. 961). This is a major fund.

Special Assessment Revolving Fund -- to account for financing improvements for which special assessments are to be levied. The fund may be used both to pay the portion of the cost of such improvements assumed by the municipality and to advance the portion of such cost ultimately to be paid from collections of assessments (SDCL 9-43-69). This is not a major fund.

Hospitality Tax Fund -- to account for the collection of a one percent tax on the gross receipts of lodging, alcoholic beverages, prepared food, and admissions. Tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the advertising and promotion of the City, its facilities, attractions, and activities (SDCL 10-52A). This is not a major fund.

Library Gift Fund -- to account for donations restricted for library expenditures. This is not a major fund.

Convention Center Business Improvement District Fund -- to account for special assessments against hotels within the district; used to finance and promote projects within the district as allowed (SDCL 9-55-3). This is not a major fund.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Governmental Funds (Continued):

911 Emergency Fund – to account for 911 emergency surcharge collected to be used for payments of nonrecurring and recurring costs, and for the general operational expenses of the 911 related services (SDCL 34-45-12). This is not a major fund.

Spearfish Economic Development Loan Fund – to account for the revolving loan fund established to loan new businesses funds which will be repaid over a period of years. This is not a major fund.

Special Park Gift Fund – to account for any gift, grant, devise or bequest made by any person, private agency, agency of state government, the federal government, or any of its agencies for park purposes (SDCL 9-38-12). This is not a major fund.

Art in Public Places Fund – established to encourage visual art in the community, by providing matching grants. The revenue is derived from a percentage of building permit fees. This is not a major fund.

Municipal Highway and Bridge Fund – to account for the levy assessed for the purpose of maintaining or repairing street surfacing or pavement (SDCL 9-45-38). This is not a major fund.

Debt Service Funds - to account for the accumulation of resources for, and the payment of, general long-term debt principle, interest, and related costs.

Tax Increment District #1 Elkhorn Ridge Debt Fund – to account for property tax revenue received on the tax increment district to finance debt service and capital construction of a municipal golf course and related infrastructure improvement made within the tax increment district. This is not a major fund.

Tax Increment District #2 Industrial Park Debt Fund – to account for property tax revenue received on the tax increment district to finance debt service and capital construction of street and infrastructure improvements made within the tax increment district. This is not a major fund.

Tax Increment District #3 McGuigan Ranch Debt Fund – to account for property tax revenue received on the tax increment district to finance debt service and capital construction of street and infrastructure improvements made within the tax increment district. This is not a major fund.

Capital Project Funds – to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Water Park Fund – to account for the construction of an outdoor water park and recreation center. This is not a major fund.

Recreation Paths Fund – to account for the ongoing construction of a recreation path throughout the community. This is not a major fund.

Tax Increment District #1 Elkhorn Ridge Capital Projects Fund – to account for construction of a municipal golf course and related infrastructure within tax increment district #1. This is not a major fund.

Tax Increment District #2 Industrial Park Capital Projects Fund – to account for construction of infrastructure improvements within tax increment district #2. This is a major fund.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Governmental Funds (Concluded):

Tax Increment District #3 McGuigan Ranch Capital Projects Fund – to account for the purchase of 10 residential lots to be sold through Dakota Land Trust for affordable housing and for the purchase of one lot for a transit site. This is not a major fund.

Permanent Funds – permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs – that is for the benefit of the City and its citizenry.

Cemetery Perpetual Care Fund – to account for the payments received for perpetual care of cemeteries which is permanently set aside and for which only the income from the trust fund investments is used for the care and maintenance of the cemetery (SDCL 9-32-18). This is not a major fund.

Proprietary Funds:

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Water Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City's waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Electric Production Fund – to account for the operation of the hydroelectric plant and related sales to Black Hills Power & Light (SDCL 9-39-1 and 9-39-26). This is a major fund.

Sewer Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City's wastewater collection system and treatment facilities (SDCL 9-48-2). This is a major fund.

Parking Fund – financed primarily by special assessments and fines in the parking district for use by the City. This is a major fund.

Solid Waste Fund – to account for the collection and disposal of solid waste from the City (SDCL 9-32-11 and 34A-6). This is a major fund.

Campground Fund – financed through revenues collected from the rental of campsites to account for expenditures in the City's campground. This is a major fund.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Internal Service Funds:

Internal Service Funds – internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary governments and its component units, or to other governments, on a cost reimbursement basis. Internal service funds are never considered major funds.

Employee Health and Accident Insurance Fund – maintained for the purpose of employee health, dental, vision and accident insurance and related purposes.

Fiduciary Funds:

Fiduciary Fund Types are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. Fiduciary funds are never considered major funds.

The City has no fiduciary funds.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the Statement of Net Assets.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified-accrual basis of accounting are applied to governmental funds, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary funds and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Spearfish, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2009, are property and sales tax receivable, contract receivable, and special assessments receivable.

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on the internal services fund activity, certain "centralized expenses," including an administrative overhead component, are charged as direct expenses to the funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reduction occurs in the Internal Service Fund, so that expenses are only reported in the function to which they relate.

Fund Financial Statements:

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary funds and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

e. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as Improvements Other Than Buildings. Infrastructure assets acquired prior to January 1, 2004 are recorded at costs which were determined by estimates of the original costs. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Construction-period interest for capital assets used in governmental activities is not capitalized in accordance with USGAAP; however, construction period interest for capital assets used in business-type activities/proprietary fund's operations, is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land and Land Rights	\$ -0-	----N/A----	----N/A----
Improvements Other Than Buildings	\$ 5,000	Straight-line	10-50 yrs.
Buildings	\$ 25,000	Straight-line	10-50 yrs.
Machinery and Equipment	\$ 5,000	Straight-line	5-40 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Continued)

f. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of revenue bonds, tax increment financing, and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis for both the fund statements and the government-wide statements.

g. Program Revenues

Program revenues are derived directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents

The City pools the cash and investment resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of the cash and investment resources on demand. Accordingly, each proprietary fund's equity in the cash management pool, including restricted investments, is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

j. Application of Net Assets

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Concluded)

k. Equity Classifications

Government-wide Financial Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions or enabling legislation.
3. Unrestricted net assets – all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between Reserved and Unreserved components. Proprietary fund equity is classified the same as in the government-wide financial statements.

l. Compensated Absences

Eligible employees shall be granted 3.08 hours of paid vacation per pay period for zero to six years of service. Upon completion of six full and continuous years of service, 40 additional hours of vacation shall be granted and 4.62 hours of paid vacation per pay period shall be accrued. Upon completion of ten full and continuous years of service, 40 additional hours of vacation shall be granted and 6.15 hours of paid vacation per pay period shall be accrued. Upon completion of twenty-five full and continuous years of service, 40 additional hours of vacation shall be granted and 7.70 hours of paid vacation per pay period shall be accrued. Eligible employees may accrue a maximum of 240 hours or 30 working days of vacation leave. Upon separation from employment, an employee will be paid for any accumulated vacation time at the employee's salary rate applicable on the last day of employment.

Eligible employees shall accrue sick leave at a rate of 3.69 hours of sick leave per pay period for zero to two years of service and 4.62 hours of sick leave per pay period for over two years of service. Employees may accumulate unlimited hours of sick leave. Upon separation from employment, an employee will be paid one-fourth of unused sick leave, but not more than 480 hours, at the employee's salary rate on the last day of employment, provided there has not been a break in service in the past seven years or the break in service was less than one year due to layoff; the employee has not been rehired prior to payment of sick leave; and termination was for other than cause; or the employee was laid off for a period of at least one year.

m. Inventory

The City maintains no significant amounts of inventory at December 31, 2009.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(2) Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

Investments – In General, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires investments to be in the physical custody of the City or deposited with any bank or trust account designated by the City as its fiscal agent.

Investment	Credit Rating	Maturity	Fair Value
U.S. Government Securities			
Federal Home Loan Bank Bonds	AAA	3-10 years	\$ 3,767,979
Federal Home Loan Mortgage Corporation Notes	AAA	3-5 years	2,256,678
Federal Farm Credit Bank Bonds	AAA	4 years	1,201,178
Federal National Mortgage Association Notes	AAA	2-10 years	1,092,597
External Investment Pools:			
SDFIT	Unrated		456,766
Total Investments			\$ 8,775,198

Interest Rate Risk:

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk:

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices. As of December 31, 2009, the City’s investment in SDFIT pool was unrated.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) **DECEMBER 31, 2009**

(2) Deposits and Investments (Continued)

Custodial Credit Risk:

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2009, none of the City's deposits were exposed to custodial credit risk.

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment, except for the Cemetery Perpetual Care Fund income, which is credited to the General Fund as required by state law.

Concentration of Credit Risk:

The City places no limit on the amount that may be invested in any one issuer. The City's investments are invested as follows: Federal Home Loan Bank Bonds (43 percent); Federal National Mortgage Association Notes (12 percent); Federal Home Loan Mortgage Corporation Notes (26 percent); and Federal Farm Credit Bank Bonds (14 percent).

(3) Deferred Revenue

Under the modified-accrual basis of accounting, receivables may be measurable but not available. Receivables are considered available if they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are deferred when the asset recognition criteria have been met, but the revenue recognition criteria have not been met. Deferred revenues consist primarily of contracts receivable, delinquent property taxes receivable, special assessments receivable, and amounts due from State governments for gaming revenue and the recreation path.

(4) Notes Receivable

The following is a summary of the notes receivable at December 31, 2009:

Loan	Collateral	Rate	Maturity	Balance
Lehman Trike	Property	3%	June 2014	\$ 238,801
Miller Machine	Equipment	3%	December 2011	80,629
Precision Blending	Equipment	3%	August 2011	22,057
Precision Blending, of Idaho, LLC	Equipment	3%	July 2013	94,072
Kazco, Inc.	Property	0%	December 2012	6,844
Black Hills Properties	Property	0%	January 2013	6,167
Flanagan	Property	0%	May 2012	4,833
Dykstra Properties	Property	0%	August 2011	3,167
Lehman Trike II	Property	3%	June 2014	102,660
Total				\$ 559,230

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(5) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

(6) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31, 2009 is as follows:

	Balance 1/1/2009	Additions	Deletions/ Transfers	Balance 12/31/2009
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 7,503,026	1,364,698	\$ 52,180	\$ 8,815,544
Construction Work in Progress	14,096,237	2,006,879	12,971,962	3,131,154
Total Capital Assets, not being Depreciated	21,599,263	3,371,577	13,024,142	11,946,698
Capital Assets, being Depreciated:				
Buildings	9,741,197	5,298,939	-	15,040,136
Improvements Other Than Buildings	12,989,372	9,527,959	-	22,517,331
Machinery and Equipment	4,458,158	2,234,237	57,152	6,635,243
Total Capital Assets, being Depreciated	27,188,727	17,061,135	57,152	44,192,710
Less Accumulated Depreciation for:				
Buildings	2,367,018	213,703	-	2,580,721
Improvements Other Than Buildings	1,677,114	743,248	-	2,420,362
Machinery and Equipment	2,811,232	364,645	57,152	3,118,725
Total Accumulated Depreciation	6,855,364	1,321,596	57,152	8,119,808
Total Governmental Activities Capital Assets, being Depreciated, Net	20,333,363	15,739,539	-	36,072,902
Total Governmental Capital Assets, Net	\$ 41,932,626	\$ 19,111,116	\$ 13,024,142	\$ 48,019,600

Depreciation expense was charged to functions as follows:

Public Safety	\$ 248,941
Public Works	362,365
Culture and Recreation	497,475
General Government	163,419
Intergovernmental	49,396
Total Depreciation Expense - Governmental	\$ 1,321,596

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(6) Changes in Capital Assets (Continued)

	Balance 1/1/2009	Additions	Deletions/ Transfers	Balance 12/31/2009
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 483,843	\$ 72,062	\$ -	\$ 555,905
Construction Work in Progress	3,204,909	412,061	3,074,391	542,579
Total Capital Assets, not being Depreciated	3,688,752	484,123	3,074,391	1,098,484
Capital Assets, being Depreciated:				
Buildings	6,205,836	3,528,977	-	9,734,813
Improvements Other Than Buildings	15,763,509	4,108,311	-	19,871,820
Machinery and Equipment	4,855,727	393,482	-	5,249,209
Total Capital Assets, being Depreciated	26,825,072	8,030,770	-	34,855,842
Less Accumulated Depreciation for:				
Buildings	3,796,475	184,460	-	3,980,935
Improvements Other Than Buildings	7,084,170	359,661	-	7,443,831
Machinery and Equipment	3,897,791	200,783	-	4,098,574
Total Accumulated Depreciation	14,778,436	744,904	-	15,523,340
Total Business-Type Activities Capital Assets, being Depreciated, Net	12,046,636	7,285,866	-	19,332,502
Total Business-Type Capital Assets, Net	\$ 15,735,388	\$ 7,769,989	\$ 3,074,391	\$ 20,430,986

Depreciation expense was charged to functions as follows:

Sewer	\$ 359,771
Water	290,293
Solid Waste	70,181
Campground	13,490
Electric Production	8,250
Parking	2,919
Total Depreciation Expense - Business-Type	\$ 744,904

As of December 31, 2009, the City has signed construction commitments in the amount of \$2,806,794. These items are expected to be financed through debt borrowings, developer funded TIDs and fund balance.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(7) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2009:

	Balance 1/1/2009	Borrowings	Repayments	Balance 12/31/2009	Due Within One Year
Primary Government:					
Governmental Activities:					
Meier-Della Vecchia Land	\$ -	\$ 575,000	\$ 175,000	\$ 400,000	\$ 200,000
Series 2007 Bonds	8,480,000	-	320,000	8,160,000	330,000
Humane Society	35,743	-	11,288	24,455	11,903
TID #1 Elkhorn Ridge	5,400,864	1,217,985	-	6,618,849	197,080
TID #2 Industrial Park Bond	-	2,000,000	229,523	1,770,477	99,611
Compensated Absences	384,175	317,318	265,646	435,847	435,847
OPEB (Note 12)	-	371,325	8,940	362,385	-
Total Governmental Activities	14,300,782	4,481,628	1,010,397	17,772,013	1,274,441
Business-Type Activities:					
Sewer-Water Revolving Loan	1,870,761	3,845,219	57,396	5,658,584	101,399
Portable Stage	-	85,000	-	85,000	6,661
Compensated Absences	115,077	97,766	87,282	125,561	125,561
Total Business-Type Activities	1,985,838	4,027,985	144,678	5,869,145	233,621
Total Primary Government	\$ 16,286,620	\$ 8,509,613	\$ 1,155,075	\$ 23,641,158	\$ 1,508,062

Interest incurred for the year ended December 31, 2009 was \$1,044,556, of which \$185,418 was capitalized in the proprietary funds.

Long-term debt at December 31, 2009, is comprised of the following:

Contracts Payable

Spearfish School District purchase of the Meier-Della Vecchia Land for \$575,000, mature July 2011, interest at 2.25 percent, due in annual installments of \$206,775. Financed through Second Penny Sales Tax Fund. \$ 400,000

Lease Payable

Wells Fargo Lease/Purchase of Portable Stage for \$85,000, mature in July 2019, interest at 5.31 percent, due in annual installments of \$11,174.22. Financed through Parking Fund. 85,000

Revenue Bonds

Series 2007 Bonds for \$8,940,000, mature in June 2027, interest at 3.5 to 4.4 percent, due in semi-annual installments from \$155,000 to \$325,000. Financed through Second Penny Sales Tax Special Revenue Fund for the Water Park. 8,160,000

Humane Society Sales Tax Bonds for \$100,000, mature in December 2011, interest at 5.38 percent, due in annual installments of \$6,530, including interest. Financed through Second Penny Sales Tax Fund. 24,455

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(7) Long-Term Debt (Continued)

Revenue Bonds (Continued):

Clean Water Revenue Borrower Bonds, Series 2008, with a maximum borrowing of \$5,900,000 by the end of 2010. As of December 31, 2009, advances totaled \$5,658,584. Payments begin in 2010, due in quarterly installments, including interest at 3.25 percent through April 2030. Sewer revenues pledged and financed through the Sewer Fund for the Wastewater expansion.

5,658,584

Tax Increment Financing Obligations

TID #1, including interest at varying rates per annum, due in semi-annual installments within 30 days of property tax collection from the county. Financed through the TID#1 Elkhorn Ridge Debt Fund.

6,618,849

TID #2 Industrial Park Bond, Series 2009, for \$2,000,000, mature in June 2021, interest at 5 percent, due in semi-annual installments from \$32,219.87 in December 2009 to each of the three banks, with installments decreasing thereafter. Financed through the TID#2 Industrial Park Debt Fund.

1,770,477

Total Bonds and Other Obligations	22,717,365
<i>Compensated Absences</i>	
General Fund	435,847
Water Fund	49,203
Sewer Fund	49,340
Electric Fund	10,607
Solid Waste Fund	16,411
Total Compensated Absences	561,408
OPEB (Note 12)	362,385
Total Long-Term Debt	\$ 23,641,158

The annual requirements to amortize long-term debt outstanding as of December 31, 2009, except for compensated absences and OPEB, are as follows:

	TID Obligations		Revenue Bonds		Lease Payable		Contracts Payable		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2010	\$ 1,294,136	\$ 296,691	\$ 427,755	\$ 443,302	\$ 4,514	\$ 6,661	\$ 6,775	\$ 200,000	\$ 1,733,180	\$ 946,654
2011	663,275	335,708	501,378	565,340	4,160	7,014	6,775	200,000	1,175,588	1,108,062
2012	631,162	362,707	481,176	569,624	3,787	7,387	-	-	1,116,125	939,718
2013	601,356	392,514	460,659	591,685	3,395	7,779	-	-	1,065,410	991,978
2014	569,221	424,649	439,257	613,978	2,982	8,192	-	-	1,011,460	1,046,819
2015-2019	2,257,574	2,711,773	1,834,426	3,427,966	7,904	47,967	-	-	4,099,904	6,187,706
2020-2024	918,391	3,865,284	1,115,109	4,139,839	-	-	-	-	2,033,500	8,005,123
2025-2029	-	-	287,999	3,300,690	-	-	-	-	287,999	3,300,690
2030-2034	-	-	106,606	190,615	-	-	-	-	106,606	190,615
Total	\$ 6,935,115	\$ 8,389,326	\$ 5,654,365	\$ 13,843,039	\$ 26,742	\$ 85,000	\$ 13,550	\$ 400,000	\$ 12,629,772	\$ 22,717,365

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(8) Conduit Debt

In the past, the City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. The City, the State of South Dakota, and any other political subdivision of the state are not obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2009, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$1,997,886.

(9) Lease

In 1997, the City issued Series 1997 bonds for the construction of a convention center on the City's land. In December 1997, the City entered into a lease agreement with the owners of the hotel adjoining the convention center, whereby the hotel is to manage the convention center in return for the convention center's profits. The term of the lease is 20 years, with the option to renew for another 10 years. The City receives additional sales tax revenue and assessments from business districts to repay the related debt.

(10) Interfund Transfers and Advances

Interfund transfers during the year ended December 31, 2009, were as follows:

	Transfers In	Transfers Out
<i>Major Funds</i>		
Second Penny Sales Tax Fund	\$ -	\$ 1,050,060
TID #2 Capital Project Fund	-	526,420
General Fund	248,184	-
Campground Fund	29,950	-
Water Fund	-	278,134
<i>Nonmajor Funds</i>		
Municipal Highway and Bridge Fund	1,050,000	-
TID #2 Debt Service Fund	134,598	-
TID #3 Capital Project Fund	60	-
Total Transfers	\$ 1,462,792	\$ 1,854,614

The Second Penny Sales Tax Fund transferred \$1,050,000 to the Municipal Highway and Bridge Fund for street projects and \$60 to TID #3 Capital Project Fund for operations. The Water Fund transferred funds to the General Fund and Campground Fund to cover water expenses. TID #2 Capital Project Fund transferred \$134,598 to TID #2 Debt Service Fund for debt service payments received in the form of TIF proceeds from the county. TID #2 Capital Projects Fund transferred \$391,822 to the Water and Sewer Funds for capital contributions for expansion of the Industrial Park.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(10) Interfund Transfers and Advances (Continued)

Interfund advance to and advance from balances at December 31, 2009 were as follows:

	Interfund Advance To	Interfund Advance From
<i>Major Funds</i>		
Second Penny Sales Tax Fund	\$ 601,111	\$ -
TID #2 Capital Project Fund	-	320,222
Water Fund	320,222	-
<i>Nonmajor Funds</i>		
TID #3 Capital Project Fund	-	601,111
Total Interfund Advances	\$ 921,333	\$ 921,333

The Second Penny Sales Tax Fund advanced \$601,111 to TID #3 Capital Project Fund for 10 housing lots to be purchased. The Water Fund advanced \$320,222 to the TID #2 Capital Project Fund for a water well as a part of the expansion of the Industrial Park.

(11) Retirement Plan -- South Dakota Retirement System

All full-time employees participate in the South Dakota Retirement System (SDRS), a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute eight and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2009, 2008, 2007, 2006, and 2005 were \$268,245, \$222,472, \$204,068, \$201,618, and \$187,845, respectively, equal to the required contributions each year.

(12) Other Post Employment Benefits – Healthcare Plan

Plan Description:

The Retiree Benefit Plan is a single-employer defined benefit healthcare plan administered by the City. The Retiree Benefit Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16. Benefit provisions were established and may be amended by the City Council. The health plan does not issue separately stated standalone financial statements.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(12) Other Post Employment Benefits – Healthcare Plan (Continued)

Funding Policy:

The contribution requirements of plan members and the City are established and may be amended by the City Council. An employee who retires from the City that is eligible for SDRS Retirement and, at least 10 years of consecutive service with the City, may be eligible for retiree health, dental and vision insurance coverage.

Coverage ceases when the retiree attains the age of 65. The retiree is responsible for 100% of the full active premium rates for either single, two-person or family coverage.

Annual OPEB Cost and Net OPEB Obligation:

The City's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the financial components of the plan:

Annual Required Contribution (ARC)	\$ 371,325
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Costs	371,325
Contributions Made	(8,940)
Change in Net OPEB Obligation	362,385
Net OPEB Obligation - Beginning of Year	-
Net OPEB Obligation - End of Year	\$ 362,385

The City's annual OPEB cost data and net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual	Net OPEB Obligation
2009	\$371,325	2%	\$362,385

Funded Status and Funding Progress:

As of December 31, 2009, the most recent actuarial valuation date, the plan was -0- percent funded. The actuarial accrued liability for benefits was \$1.6 million, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.4 million, and the ratio of the UAAL to the covered payroll was 36.7 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) **DECEMBER 31, 2009**

(12) Other Post Employment Benefits – Healthcare Plan (Concluded)

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the Alternative Measurement Method, actuarial valuation, the Entry Age method was used. The actuarial assumptions included a -0- percent rate of return and an annual healthcare cost trend rate of 9% for health, 4% for dental and 3% for vision, initially, reduced by decrements to an ultimate rate of 4.7% for health, 3% for dental, and 3% for vision, respectively, after 10 years. Both rates include a 2% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll for 30 years.

(13) Joint Venture

The City previously participated in a joint venture, known as the Northern Hills Multi-Jurisdictional Drug Task Force, formed for the purpose of implementing and improving state and local drug law enforcement. The task force is no longer active, and the City is in the process of withdrawing their participation.

The members of the joint venture, each with 10 percent participation, were as follows:

Butte County	Newell City
Lawrence County	Deadwood City
Meade County	Belle Fourche City
Spearfish City	Lead City
Sturgis City	Whitewood City

The joint venture's governing board was composed of ten representatives, who were the sheriffs from each county and the police chief from each municipality. The board was responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The City retains no equity in the net assets of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Lawrence County Sheriff's Office.

(14) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2009, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. The City covers \$400 of an employee's health insurance benefits. The employee is responsible for additional charges based on the coverage and deductible plan selected by the employee. The City also reimburses employees for 70 percent of the deductible between \$500 and \$1,000 (maximum of \$350) on the employee. Excess funds are kept in the Health and Accident Insurance Fund and are used to stabilize premium costs.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009

(14) Risk Management (Continued)

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control, and risk reduction information, and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage, under a claims-made policy, and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, errors and omissions, property, auto (liability and physical damage), police professional liability, boiler, and machine.

The agreement with the South Dakota Public Assurance Alliance provides that the coverage will be provided up to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. The City carries a \$500 deductible on physical auto; \$500 deductible on boiler and machine; \$500 deductible on property; \$1,000 deductible on errors and omissions; and \$5,000 on law enforcement professional liability.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve on the following basis:

End of the City's First Full Year	50%
End of the City's Second Full Year	60%
End of the City's Third Full Year	70%
End of the City's Fourth Full Year	80%
End of the City's Fifth Full Year	90%
End of the City's Sixth Full Year	100%

As of December 31, 2009, the City has a vested balance in the cumulative reserve fund of \$98,788 and is considered to be fully vested.

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and resolve any worker's compensation claims. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees, under a retro-actively rated policy, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance, which covers up to \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONCLUDED) DECEMBER 31, 2009

(14) Risk Management (Concluded)

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The City has not reserved equity for the payment of future unemployment benefits.

During the year ended December 31, 2009, one claim was filed for unemployment benefits. This claim resulted in the payment of benefits in the amount of \$6,971. At December 31, 2009, two claims had been filed and were outstanding. It is estimated, based upon historical trends, that these claims will result in the future payment of unemployment benefits in the amount of approximately \$4,250. It is not anticipated that any additional claims for unemployment benefits will be filed in the next year.

(15) Contracts Receivable

In 2002, the City entered into a contract with Black Hills Corporation for naming rights on the new Sports Complex. The agreement calls for Black Hills Corporation to pay the City \$200,000 in ten annual installments of \$20,000 beginning March 1, 2003. This amount is reflected in the financial statements as long-term contracts receivable in the Second Penny Sales Tax Fund.

(16) Deficit Fund Balance

The City has an accumulated deficit of \$601,051 in the TID #3 Capital Projects Fund as of December 31, 2009. This deficit is the result of the purchase of land utilizing temporary financing to fund expenditures for certain capital projects. As the City permanently finances these appropriations the City will realize as revenues the proceeds of the financing. This deficit does not indicate that the City is facing financial difficulties and is a permitted practice under generally accepted accounting principles.

(17) City Officers

The following were City officers for the year ended December 31, 2009:

Mayor:

Jerry Krambeck

Council:

David Baker

Mary Morgan

Tom Quinn

Doug Schmit

Eric Davis

Paul Young

City Administrator/Finance Officer:

Greg Sund

Attorney:

Richard Plumier

Brady Plumier, P.C.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

		Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue					
	<i>Taxes:</i>				
311	General Property Taxes	\$ 1,665,454	\$ 1,665,454	\$1,661,114	\$ (4,340)
313	General Sales and Use Taxes	2,730,000	2,730,000	2,683,853	(46,147)
314	Gross Receipts Tax	48,000	48,000	57,135	9,135
315	Amusement Taxes	1,000	1,000	1,140	140
319	Penalties and Interest on Delinquent Taxes	2,000	2,000	5,574	3,574
	<i>Licenses and Permit:</i>				
320	Licenses and Permits	220,046	220,046	371,521	151,475
	<i>Intergovernmental Revenue:</i>				
334	State Grants	-	-	18,175	18,175
	<i>State Shared Revenue:</i>				
335.01	Bank Franchise Tax	4,000	4,000	4,418	418
335.03	Liquor Tax Reversion	45,000	45,000	51,473	6,473
335.04	Motor Vehicle Licenses (5%)	41,000	41,000	53,956	12,956
335.20	Other	194,000	194,000	-	(194,000)
	<i>County Shared Revenue:</i>				
339	County Payments in Lieu of Taxes	230,000	230,000	230,421	421
338.02	County HBR Tax	18,000	18,000	17,942	(58)
	<i>Charges for Goods and Services:</i>				
341	General Government	7,300	7,300	5,944	(1,356)
342	Public Safety	118,900	118,900	121,777	2,877
343	Highways and Streets	50	50	52	2
346	Culture and Recreation	440,000	440,000	596,302	156,302
348	Cemetery	5,050	5,050	7,792	2,742
349	Other	-	-	55	55
	<i>Fines and Forfeits:</i>				
351	Court Fines and Costs	1,000	1,000	20,991	19,991
352	Animal Control Fines	2,000	2,000	4,865	2,865
359	Other	-	-	1,943	1,943
	<i>Miscellaneous Revenue:</i>				
361	Earnings on Deposits and Investments	110,000	110,000	109,767	(233)
362	Rentals	27,500	27,500	36,284	8,784
367	Contributions and Donations - Private Sources	-	-	8,819	8,819
369	Other	-	-	8,167	8,167
Total Revenue		5,910,300	5,910,300	6,079,480	169,180

CITY OF SPEARFISH

BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures				
<i>General Government:</i>				
411 Legislative	100,017	107,517	107,497	20
411.5 Contingency	150,000	150,000	-	150,000
Amount Transferred	-	(150,000)	-	(150,000)
412 City Administration	164,393	164,393	155,066	9,327
413 Elections	1,500	4,600	4,585	15
414 Financial Administration	412,774	412,774	329,161	83,613
419 Other	799,484	804,484	788,945	15,539
<i>Public Safety:</i>				
421 Police	1,851,297	1,851,297	1,764,866	86,431
422 Fire	161,353	161,353	152,298	9,055
423 Protective Inspection	146,159	146,159	135,920	10,239
<i>Public Works:</i>				
431 Highways and Streets	744,705	957,605	926,970	30,635
437 Cemeteries	111,201	111,201	105,453	5,748
<i>Health and Welfare:</i>				
441.1 Regulation and Inspection	68,600	68,600	68,600	-
444.2 Animal Control	62,677	62,677	58,453	4,224
<i>Culture and Recreation:</i>				
451 Recreation	822,228	1,225,028	1,458,911	(233,883)
452 Parks	324,865	324,865	308,557	16,308
455 Library	291,808	299,008	289,383	9,625
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	35,000	35,000	35,000	-
465 Economic Development and Assistance	132,030	132,030	127,236	4,794
480 Intergovernmental Expenditures	337,062	351,162	347,004	4,158
Total Expenditures	6,717,153	7,219,753	7,163,905	55,848
Excess (Deficiency) of Revenue Under Expenditures	(806,853)	(1,309,453)	(1,084,425)	225,028
Other Financing Sources (Uses):				
391.1 Transfers In	171,000	171,000	248,184	77,184
391.03 Sale of Municipal Property	-	-	3,000	3,000
511 Transfers Out	-	(84,100)	-	84,100
Total Other Financing Sources	171,000	86,900	251,184	164,284
Net Change in Fund Balance	(635,853)	(1,222,553)	(833,241)	389,312
Fund Balance - December 31, 2008	4,888,137	4,888,137	4,888,137	-
Fund Balance - December 31, 2009	\$ 4,252,284	\$ 3,665,584	\$ 4,054,896	\$ 389,312

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF SPEARFISH

BUDGETARY COMPARISON SCHEDULE
SECOND PENNY SALES TAX FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 2,730,000	\$ 2,730,000	\$ 2,683,853	\$ (46,147)
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	50,000	50,000	73,949	23,949
367 Contributions and Donations - Private Sources	25,000	25,000	29,020	4,020
Total Revenue	2,805,000	2,805,000	2,786,822	(18,178)
Expenditures				
<i>General Government:</i>				
419 Other	20,000	20,000	14,078	5,922
<i>Public Safety:</i>				
421 Police	40,000	40,000	39,107	893
422 Fire	450,000	450,000	444,118	5,882
<i>Public Works:</i>				
431 Highways and Streets	345,000	367,750	260,620	107,130
437 Cemeteries	30,000	30,000	-	30,000
<i>Health and Welfare:</i>				
441.1 Regulation and Inspection	20,000	20,000	20,000	-
<i>Culture and Recreation:</i>				
451 Recreation	116,000	116,000	79,570	36,430
452 Parks	-	99,000	673,968	(574,968)
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	12,500	12,500	-	12,500
470 Debt Service	604,500	854,900	764,865	90,035
480 Intergovernmental Expenditure	162,000	185,000	109,692	75,308
Total Expenditures	1,800,000	2,195,150	2,406,018	(210,868)
Excess (Deficiency) of Revenue Over Expenditures	1,005,000	609,850	380,804	(229,046)
Other Financing Sources (Uses):				
391.20 Sale of Bonds	-	-	575,000	575,000
511 Transfers Out	(1,125,000)	(1,000,000)	(1,050,060)	(50,060)
Total Other Financing Uses	(1,125,000)	(1,000,000)	(475,060)	524,940
Net Change in Fund Balance	(120,000)	(390,150)	(94,256)	295,894
Fund Balance - December 31, 2008	3,408,907	3,408,907	3,408,907	-
Fund Balance - December 31, 2009	\$ 3,288,907	\$ 3,018,757	\$ 3,314,651	\$ 295,894

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF SPEARFISH

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2009**

(1) Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number four.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2009.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, and capital projects funds.
8. Budgets for the general fund, special revenue funds, and capital projects funds are adopted on a basis consistent with the modified-cash basis of accounting, except for the following:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances; however, in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

(2) Other Post Employment Benefits – Healthcare Plan

As of December 31, 2009, the most recent actuarial valuation date, the plan's statistics were as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2009	\$ -	\$ 1,620,496	\$ 1,620,496	0.00%	\$ 4,415,472	36.70%

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund	911 Emergency Fund	Special Assessment Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund
Assets							
101 Cash and Cash Equivalents	\$ 204,930	\$ 33,204	\$ 5,220	\$ 68,730	\$ 229,586	\$ 415,680	\$ 168,326
104 Investments	319,166	36,328	23,787	8	401,541	363,664	124,414
110 Sales Taxes Receivable	12,841	-	-	-	-	-	-
115 Accounts Receivable	-	-	100	5,491	-	-	-
121 Special Assessments Receivable	-	-	6,898	-	101,588	-	-
128 Notes Receivable	-	-	-	-	-	559,230	-
132 Due from Other Governments	-	-	-	24,979	-	-	-
Total Assets	\$ 536,937	\$ 69,532	\$ 36,005	\$ 99,208	\$ 732,715	\$ 1,338,574	\$ 292,740
Liabilities and Fund Balances							
<i>Liabilities</i>							
202 Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
220 Customer Deposits	-	-	-	-	-	10,740	-
224 Deferred Revenue	-	-	-	-	101,588	-	-
236 Advance From Other Funds	-	-	-	-	-	-	-
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ 101,588	\$ 10,740	\$ -
<i>Fund Balances</i>							
261 <i>Reserved Fund Balances</i>							
261.16 Reserved for Long-Term Notes Receivable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 559,230	\$ -
262 <i>Unreserved Fund Balances</i>							
262.01 Designated for Next Year's Appropriations	-	-	-	-	-	-	-
262.09 Undesignated	536,937	69,532	36,005	99,208	631,127	768,604	292,740
Total Fund Balances	\$ 536,937	\$ 69,532	\$ 36,005	\$ 99,208	\$ 631,127	\$ 1,327,834	\$ 292,740
Total Liabilities and Fund Balances	\$ 536,937	\$ 69,532	\$ 36,005	\$ 99,208	\$ 732,715	\$ 1,338,574	\$ 292,740

Art in Public Places Fund	Municipal Highway and Bridge Fund	TID #1 Elkhorn Ridge Debt Fund	TID#2 Industrial Park Debt Fund	TID#3 McGuigan Ranch Debt Fund	Cemetery Perpetual Care Fund	Water Park Capital Project Fund	Recreation Path Capital Project Fund	TID #1 Elkhorn Ridge Capital Projects Fund	TID #3 McGuigan Ranch Capital Projects Fund	Total
\$ 36,009	\$ 26,998	\$ 13,301	\$ 19,513	\$ 10,009	\$ 800	\$ 74,400	\$ 17,251	\$ 216	\$ 60	\$ 1,324,233
4	72,047	2	-	1	393,454	55,579	6,265	-	-	1,796,260
-	-	-	-	-	-	-	-	-	-	12,841
-	-	-	-	-	-	-	-	-	-	5,591
-	1,109	-	-	-	-	-	-	-	-	109,595
-	-	-	-	-	-	-	-	-	-	559,230
-	-	-	-	-	-	-	96,391	-	-	121,370
<u>\$ 36,013</u>	<u>\$ 100,154</u>	<u>\$ 13,303</u>	<u>\$ 19,513</u>	<u>\$ 10,010</u>	<u>\$ 394,254</u>	<u>\$ 129,979</u>	<u>\$ 119,907</u>	<u>\$ 216</u>	<u>\$ 60</u>	<u>\$ 3,929,120</u>
\$ -	\$ 33,720	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,720
-	-	-	-	-	-	-	-	-	-	10,740
-	1,109	-	-	-	-	-	96,391	-	-	199,088
-	-	-	-	-	-	-	-	-	601,111	601,111
<u>\$ -</u>	<u>\$ 34,829</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,391</u>	<u>\$ -</u>	<u>\$ 601,111</u>	<u>\$ 844,659</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	559,230
36,013	-	-	-	-	-	-	-	-	-	36,013
-	65,325	13,303	19,513	10,010	394,254	129,979	23,516	216	(601,051)	2,489,218
<u>\$ 36,013</u>	<u>\$ 65,325</u>	<u>\$ 13,303</u>	<u>\$ 19,513</u>	<u>\$ 10,010</u>	<u>\$ 394,254</u>	<u>\$ 129,979</u>	<u>\$ 23,516</u>	<u>\$ 216</u>	<u>\$ (601,051)</u>	<u>\$ 3,084,461</u>
<u>\$ 36,013</u>	<u>\$ 100,154</u>	<u>\$ 13,303</u>	<u>\$ 19,513</u>	<u>\$ 10,010</u>	<u>\$ 394,254</u>	<u>\$ 129,979</u>	<u>\$ 119,907</u>	<u>\$ 216</u>	<u>\$ 60</u>	<u>\$ 3,929,120</u>

CITY OF SPEARFISH

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund	911 Emergency Fund	Special Assessment Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund
Revenue:							
<i>Taxes:</i>							
311 General Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	436,958	-	-	-	-	-	-
316 911 Telephone Surcharge	-	-	-	99,598	-	-	-
<i>Intergovernmental Revenue:</i>							
335.08 Local Government Highway and Bridge Fund	-	-	-	-	-	-	-
<i>Charges for Goods and Services:</i>							
341 General Government	-	-	-	-	-	25,000	-
346 Culture & Recreation	-	-	-	-	-	-	-
348 Cemeteries	-	-	-	-	-	-	-
<i>Fines & Forfeits:</i>							
354 Library	-	16,061	-	-	-	-	-
<i>Miscellaneous Revenue:</i>							
361 Earnings on Deposits and Investments	9,582	1,741	2,065	2,102	11,693	28,010	5,243
362 Rentals	-	-	-	-	-	9,620	23,694
363 Special Assessments	-	-	170,504	-	32,295	-	-
367 Contributions and Donations - Private Sources	2,209	5,534	18,672	-	-	-	9,039
369 Other	-	-	100	-	-	-	-
Total Revenue	448,749	23,336	191,341	101,700	43,988	62,630	37,976
Expenditures:							
<i>General Government:</i>							
419 Other	7,000	-	-	-	-	-	-
<i>Public Safety:</i>							
421 Police	-	-	-	25,401	-	-	-
<i>Culture and Recreation:</i>							
451 Recreation	106,035	-	-	-	-	-	-
452 Parks	-	-	-	-	-	-	19,062
455 Library	-	17,505	-	-	-	-	-
456 Auditorium	155,500	-	-	-	-	-	-
<i>Conservation and Development:</i>							
463 Urban Redevelopment and Housing	34,000	-	-	-	-	-	-
465 Economic Development and Assistance	160,000	-	147,085	-	-	7,948	-
470 Debt Service	-	-	90,000	-	-	-	-
485 Capital Outlay	-	-	-	246,864	-	-	-
Total Expenditures	462,535	17,505	237,085	272,265	-	7,948	19,062
Excess of Revenue Over (Under) Expenditures	(13,786)	5,831	(45,744)	(170,565)	43,988	54,682	18,914
Other Financing Sources:							
391.1 Transfers In	-	-	-	-	-	-	-
391.25 Tax Increment Financing Debt Issued	-	-	-	-	-	-	-
Total Other Financing Sources	-	-	-	-	-	-	-
Net Change in Fund Balances	(13,786)	5,831	(45,744)	(170,565)	43,988	54,682	18,914
Fund Balances, December 31, 2008	550,723	63,701	81,749	269,773	587,139	1,273,152	273,826
Fund Balances, December 31, 2009	\$ 536,937	\$ 69,532	\$ 36,005	\$ 99,208	\$ 631,127	\$ 1,327,834	\$ 292,740

Art in Public Places Fund	Municipal Highway and Bridge Fund	TID #1 Elkhorn Ridge Debt Fund	TID #2 Industrial Park Debt Fund	TID #3 McGuigan Ranch Debt Fund	Cemetery Perpetual Care Fund	Water Park Capital Project Fund	Recreation Path Capital Project Fund	TID#1 Elkhorn Ridge Capital Projects Fund	TID #3 McGuigan Ranch Capital Projects Fund	Total
\$ -	\$ -	\$ 150,350	\$ 179,489	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 329,839
-	-	-	-	-	-	-	-	-	-	436,958
-	-	-	-	-	-	-	-	-	-	99,598
-	84,842	-	-	-	-	-	-	-	-	84,842
-	-	-	-	-	-	-	-	-	-	25,000
6,583	-	-	-	-	-	-	-	-	-	6,583
-	-	-	-	-	8,600	-	-	-	-	8,600
-	-	-	-	-	-	-	-	-	-	16,061
778	4,540	191	5,682	10	-	2,505	358	3	-	74,503
-	-	-	-	-	-	-	-	-	-	33,314
-	97,173	-	-	-	-	-	-	-	-	299,972
-	138	-	-	-	-	10,000	-	-	-	45,592
-	4,423	-	-	10,000	-	-	-	-	-	14,523
7,361	191,116	150,541	185,171	10,010	8,600	12,505	358	3	-	1,475,385
-	-	-	-	-	-	-	-	-	-	7,000
-	-	-	-	-	-	-	-	-	-	25,401
-	-	-	-	-	-	-	-	2,522	-	108,557
-	-	-	-	-	-	-	-	-	-	19,062
-	-	-	-	-	-	-	-	-	-	17,505
-	-	-	-	-	-	-	-	-	-	155,500
-	-	-	-	-	-	-	-	-	-	34,000
-	-	-	-	-	-	-	-	-	-	315,033
-	-	150,350	300,256	-	-	-	-	-	-	540,606
-	1,398,556	-	-	-	-	98,834	-	1,216,665	601,111	3,562,030
-	1,398,556	150,350	300,256	-	-	98,834	-	1,219,187	601,111	4,784,694
7,361	(1,207,440)	191	(115,085)	10,010	8,600	(86,329)	358	(1,219,184)	(601,111)	(3,309,309)
-	1,050,000	-	134,598	-	-	-	-	-	60	1,184,658
-	-	-	-	-	-	-	-	1,217,985	-	1,217,985
-	1,050,000	-	134,598	-	-	-	-	1,217,985	60	2,402,643
7,361	(157,440)	191	19,513	10,010	8,600	(86,329)	358	(1,199)	(601,051)	(906,666)
28,652	222,765	13,112	-	-	385,654	216,308	23,158	1,415	-	3,991,127
\$ 36,013	\$ 65,325	\$ 13,303	\$ 19,513	\$ 10,010	\$ 394,254	\$ 129,979	\$ 23,516	\$ 216	\$ (601,051)	\$ 3,084,461

CITY OF SPEARFISH

BUDGETARY COMPARISON SCHEDULE

TID #2 INDUSTRIAL PARK CAPITAL PROJECT FUND - BUDGETARY BASIS

FOR THE YEAR ENDED DECEMBER 31, 2009

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	\$ -	\$ -	\$ 7,670	\$ 7,670
363 Special Assessments	-	-	321	321
Total Revenue	-	-	7,991	7,991
Expenditures				
<i>Public Works:</i>				
431 Highways and Streets	1,225,000	1,291,600	862,967	428,633
432 Wastewater	150,000	150,000	-	150,000
433 Water	1,470,000	1,470,000	-	1,470,000
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	325,000	325,000	5,427	319,573
Total Expenditures	3,170,000	3,236,600	868,394	2,368,206
Excess (Deficiency) of Revenue Under Expenditures	(3,170,000)	(3,236,600)	(860,403)	2,376,197
Other Financing Sources (Uses):				
391.1 Transfers In	450,000	450,000	-	(450,000)
391.20 Sale of Bonds	1,950,000	1,950,000	2,000,000	50,000
511 Transfers Out	-	-	(526,420)	(526,420)
Total Other Financing Sources	2,400,000	2,400,000	1,473,580	(926,420)
Net Change in Fund Balance	(770,000)	(836,600)	613,177	1,449,777
Fund Balance - December 31, 2008	67,159	67,159	67,159	-
Fund Balance (Deficit) - December 31, 2009	\$ (702,841)	\$ (769,441)	\$ 680,336	\$ 1,449,777



Ketel Thorstenson, LLP

Certified Public Accountants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Spearfish
Spearfish, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF SPEARFISH** (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Auditor's Comments and Closing Conference we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Auditor's Comments and Closing Conference as Finding #09-1 to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Auditor's Comments and Closing Conference as Findings #09-2, #09-3, and #09-4 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Auditor's Comments and Closing Conference as Finding #08-1.

City Council
Page Two

The City's responses to the findings identified in our audit are described in the accompanying Auditor's Comments and Closing Conference. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Council, and management, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is fluid and cursive, with the letters "K", "T", and "L" being particularly prominent.

KETEL THORSTENSON, LLP
Certified Public Accountants

April 4, 2011

CITY OF SPEARFISH

AUDITOR'S COMMENTS AND CLOSING CONFERENCE DECEMBER 31, 2009

A. Status of Prior Audit Findings and Recommendations

Administration is aware that the budgeting process needs to be more diligent in completing supplemental appropriations, when necessary. Finding #08-1 will be repeated for the year ending December 31, 2009.

B. Current Year Audit Findings and Recommendations

Significant Deficiency – Material Weakness

09-1 Finding: Internal Control over Significant Accounts

Condition: During the course of our engagement, we proposed material audit adjustments that resulted in a \$960,796 decrease in reported net income. Adjustments included adjusting fund balance, sales tax receivables, deferred revenue, governmental land, capital contributions, advances, long-term debt, and the OPEB obligation. In addition, entries were proposed as part of the audit, but were not recorded due to the overall insignificance on the financial statements.

Criteria and Effect: These adjustments would not have been identified as a result of the City's existing internal controls, and therefore, could have resulted in a material misstatement of the City's financial statements.

Recommendation: Management should adjust accrual basis accounts at least annually.

Response: The Acting Finance Officer and Accountant 1 will thoroughly review the receivables and deferred revenue amounts to verify that they are available by *definition* within the 60-day period prior to posting to the financial statements. Long-term debt and advances are being more closely monitored by the Acting Finance Officer and Accountant 1 to be properly recorded at year end. The first major adjustment in 2009 were approximately \$550,000 in sales tax revenue received within the 60 day availability period but defined by the South Dakota Department of Revenue as 2010 sales tax collections due to a recent change in reporting definitions. Historically, the city has reported the first 45 days of new year sales tax receipts as prior year revenue. The second adjustment in 2009 was approximately \$269,000 in gaming tax revenue received five days after the 60 day availability period. Historically, this revenue has always been received within the 60 day window. This revenue should have been classified as deferred revenue and not as a receivable since Lawrence County was late in making their mandated payment. The third major adjustment in 2009 was approximately \$320,000 transfer to TID#2 Capital Project Fund from Water however these monies should have been classified as an advance. The final major adjustment in 2009 was approximately \$221,000 of contributed capital for TID#1 Elkhorn Ridge. This adjustment was made for items that were above the TID project plan and will not be reimbursed with tax increment.

CITY OF SPEARFISH

AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED) DECEMBER 31, 2009

B. Current Year Audit Findings and Recommendations (Continued)

Significant Deficiencies – Not Considered Material Weaknesses

09-2 Finding: Segregation of Duties

Condition: Accountant I downloads the payroll information from the timecards into the payroll system and completes the payroll transfer via the internet. A listing including employee name and net pay is reviewed by Human Resources prior to direct deposit, but such listing does not include pay rates, hours worked, etc. Additionally, although the Human Resources employee is the only individual authorized to change pay rates, Accountant I does have access to do so in the payroll module.

Criteria and Effect: The City is susceptible to the payment of unapproved wages.

Recommendation: An employee in Human Resources should review a listing of employees and salary prior to and after payment, including hours worked, pay rates, employee name, and account coding.

Response: The software the city uses will not allow the necessary restriction for this specified segregation of duties. To have this feature added to the program, we would have to request a special modification which we have determined would be cost prohibitive as stewards for the taxpayer. Therefore, a report of all changes made to the payroll system will be printed and approved by the Human Resource Director or City Administrator prior to the payroll payment file being transmitted. The Human Resource Director or City Administrator will verify that no wage changes, or other non-appropriate changes, have been made by Accountant 1.

09-3 Finding: Signature Stamp

Condition: The Utility Billing Coordinator has control of the Mayor's signature stamp and contacts the Mayor prior to its use. There is a control in place in which the Mayor initials all manual checks that use his signature stamp.

Criteria and Effect: An internal control process is not in place to verify the completeness of the checks he initials.

Recommendation: The Acting Finance Officer or Accountant I should create a listing of manual checks issued and supply such listing to the Mayor, in order for him to verify the completeness of manual checks issued that utilized his signature stamp.

Response: The Acting Finance Officer, Accountant 1 and Accountant 2 have signatory authority on all City accounts and dual signatures are required. Therefore, it will be very rare to ever need the Mayor's signature on a manual check. The recommended list will be utilized and kept with the utility billing coordinator when the Mayor's signature stamp is used. The Mayor's signature stamp will only be used when the Mayor is unavailable. The city writes on average 30 manual checks per year.

09-4 Finding: Financial Statement Preparation

Condition: We were requested to assist with the drafting of the financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. This is not unusual for cities of your size.

CITY OF SPEARFISH

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONCLUDED)
DECEMBER 31, 2009**

B. Current Year Audit Findings and Recommendations (Concluded)

Significant Deficiencies – Not Considered Material Weaknesses (Continued)

09-4 Finding: Financial Statement Preparation (Continued)

Criteria and Effect: It is our responsibility to inform the City Council that this deficiency could result in a misstatement to the financial statements that would not have been prevented or detected by the City's management.

Recommendation: We have instructed management to review a draft of the revised financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's statements. We are satisfied that the appropriate steps have been taken to provide the City with complete financial statements. It is the City Council's responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations.

Response: Due to increasing job responsibilities of the Acting Finance Officer and Accountant 1 it was determined by management to have Ketel Thorstenson, LLP prepare the final presentation of the city's annual report. All information was carefully reviewed and approved by the Acting Finance Officer and Accountant 1 prior to issuance of the report.

08-1 Finding: Budgetary Overdraft

Condition: The City has a budgetary overdraft in violation of South Dakota Codified Law 9-21-9, in the following departments:

Fund	Department	Overdraft
Second Penny Sales Tax Fund	Culture and Recreation - Parks	\$ 574,968
General Fund	Recreation	233,883

Criteria and Effect: The City did not follow state law.

Recommendation: The City in the future should complete supplemental appropriations for unbudgeted expenditures.

Response: The Department of Culture and Recreation-Parks \$574,968 budgetary overdraft was due to year-end entries to record the future debt on land that was purchased in 2009. Future purchases involving debt will be accounted for properly at purchase time by the Acting Finance Officer or Accountant 1 to avoid budgetary overdrafts during financial statement preparation time.